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Canalys: How are enterprise vendors addressing customers with 100 to 1,000 employees?

- **Enterprise vendors most often fail because they lack consistency in their approach to the mid-market**
- **Vendors' internal structures and compensation models must support a channel-led model to succeed**
- **Managing the mix of large and small partners serving the mid-market requires careful balance**

Vendors that specialize in selling complex infrastructure and software are increasing their focus on the 'mid-market' (broadly covering companies with between 100 and 1,000 employees) as larger corporations slow IT spending and extend replacement cycles. Canalys estimates this represents around 1.2 million organizations worldwide, and 230,000 in EMEA. It includes a diverse range of company types, IT strategies and purchasing behavior. But common traits exist, including:

- These companies are predominantly served by the indirect channel, so effective channel strategies are critical.
- Companies are likely to have dedicated in-house IT resources and complex IT requirements similar to much larger organizations (though these can differ substantially by size and complexity). But unlike large enterprises, they don't necessarily have procurement departments screwing down on every deal.
- IT-as-a-service consumption models are becoming more attractive in this segment, particularly as companies look to reduce internal IT management costs. But most have legacy on-premises environments.
- Companies with fewer than 1,000 employees have an increasing appetite to compete internationally with much larger organizations via the worldwide, connected economy.

Vendors with a focus on large enterprises tend to renew their interest in the mid-market every two to three years. But this is often a tactical response to a slowdown in other parts of their business, and the channel can be skeptical of these initiatives. Too often, good intentions are not supported by the necessary organizational changes, processes or products to drive sustained relationships with channel partners (or customers). Pricing in the mid-market can be a problem for vendors with large-scale enterprise products. Success requires a strategic, long-term channel commitment from the vendor, internal governance (and compensation models) that minimize conflict between direct and indirect, sustained investment in marketing, and dedicated product portfolios. This report assesses the mid-market strategies of three vendors with established footholds in the large enterprise sector. EMC, IBM and Cisco all claim strong mid-market growth, but each is taking a different approach.

Comparing mid-market strategies

	Cisco	EMC	IBM
Go-to-market model	Partner-led: focus on 2,000 high-growth mid-market partners worldwide	Fully indirect below top accounts: supported by sales 'hard deck'	Managed Service Providers (MSPs): priority GTM
Mid-market strengths	Committed to indirect channel 'Made for mid-market' portfolio Loyal partner relationships Investment in virtual tools Brand recognition Marketing and lead generation Partner Plus program	Supporting shift to indirect model in mid-market Changing culture Solution breadth VMware penetration Pre-sales partner support Investing in partner talent	Unique mid-market model Marketing investments Dedicated support to MSPs Low mid-market share minimizes risk Software & services portfolio Driving MSP/resell partnerships Opportunity to offset hardware
Mid-market weakness	Potential SP and resell conflict Small partners could lose out Price-aggressive rivals Risk of over-playing cloud Partners can lack PS skills Networking/UC channel slow to move to new solutions	Low brand strength in mid-market Direct heritage Large enterprise culture Limited channel coverage Partners can lack consulting Perceived price premium Past inconsistencies in mid-market	MSP not proven model yet MSPs slow to move beyond IaaS Multiple, complex MSP models Alienate non-MSP partners? Enterprise-level brand High price premium ROI on MSP hard to forecast

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Channel-led approach paying off for EMC

In the last 18 months, EMC's mid-market strategy has been underpinned by a much stronger channel focus. A key driver was the ending of EMC's relationship with Dell in 2011. Dell accounted for almost 10% of global revenue, and a significant chunk of 'indirect' business. Without Dell, EMC needs channel partners to fuel a much greater share of growth. But unlike in the past, EMC has matched this with important internal changes. It has recruited new channel management in many countries. For the first time it has designated all but 150 direct accounts in EMEA as channel-only. Channel neutrality for EMC sales staff (whereby staff are rewarded equally for direct or indirect sales) has been replaced with the removal of all compensation for selling directly to channel accounts. EMC increased its indirect sales

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force - both field and desk-based - by around 50% in 2012, and will grow this by a further 25% this year. It is ramping up marketing investment and training in the channel.

Mid-market accounts represent total available revenue for EMC of less than $1 million per year on a recurring basis, with secondary criteria including employee numbers, total IT spend, revenue and vertical focus. This can therefore include larger enterprises in sectors that don't invest heavily in storage, such as manufacturing or the public sector (with the exception of healthcare and the police). EMC claims to be identifying hundreds of mid-market deals a quarter, which tend to break down into three buckets: virtualization-led projects; 'next generation' back-up and recovery (customers that have already virtualized servers or desktops and now identify new back-up requirements); and application re-platforming (doing new things with Exchange, Oracle, SAP, etc). EMC also believes IT-as-a-service opportunities are growing in the mid-market, accounting for one in every four deals. A year ago, this represented one in every 10 opportunities.

EMC has finally recognized some important truths about the channel. Firstly, mid-market customers want to deal with organizations that look like them in terms of size. Secondly, mid-market customers use multiple vendors and technologies but typically want to consolidate the supply of these technologies through a small number of partners. They also want partners that can integrate these different technologies. Thirdly, products and solutions need to fit the specific needs (and budgets) of smaller customers. Finally, in a segment where EMC's brand awareness can be low, partners are important to educate customers on EMC.

EMC began re-engineering its portfolio for smaller enterprises two years ago, with the launch of its VNX and VNXe range of storage solutions, followed by VSPEX in 2012. It has now lowered the entry point for its deduplication products, and sees a big opportunity to accelerate deduplication sales through the channel. But a key challenge lies in developing professional service skills in the channel. A deduplication sale will often begin with a business-led conversation, rather than a technology discussion, for example. These capabilities can be lacking in EMC's partner base. In some mature markets it is attempting to drive this through professional service and customer support certifications for partners. It also has dedicated pre-sales staff for the channel to help partners with specific opportunities, such as the cloud. And it plans to introduce training for existing channel sales people, or graduates who can then be made available for partners to hire after their four-week training course.

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IBM pursues MSPs for mid-market growth

Over the last 18 months, IBM has prioritized Managed Service Providers (MSPs) as its primary channel to the mid-market, for both infrastructure and software. The mid-market for IBM covers companies with 100 to 1,000 employees, where IBM has made a bold assumption that IT-as-a-service will become the primary consumption model. This is still not guaranteed, but IBM's market share here is low, as is its share of the resell channel. If IBM proves correct, it will gain share quickly, without alienating existing partners. MSPs cover a broad spectrum of business models, including hosters, service providers, systems integrators, ISPs and ISVs, but also traditional resellers that deliver IT-as-a-service. It has recruited 3,000 MSPs worldwide, with more than 700 in EMEA, more than doubling the number in a year. Most of these are also new partners for IBM.

IBM is funneling significant resources into this space: half of the company's channel marketing budget is now directed at marketing to and with MSPs. It has launched dedicated MSP certifications within PartnerWorld, its global partner program. It is providing pay-as-you-grow and other financing offers to MSPs via IBM Global Finance, to help support their capital investments. It has deployed a large internal team to support MSPs directly, develop sales and marketing plans, and help with enablement. It is also developing a two-tier model, using specialist distributors such as Arrow and Avnet to recruit and support smaller MSPs. It has a range of cloud services, infrastructure (such as PureSystems) and software offerings designed specifically for MSPs. But while IBM has seen growth in hardware and software sales to MSPs, accelerating the growth of downstream managed services and cloud to final end users is the most important test of success.

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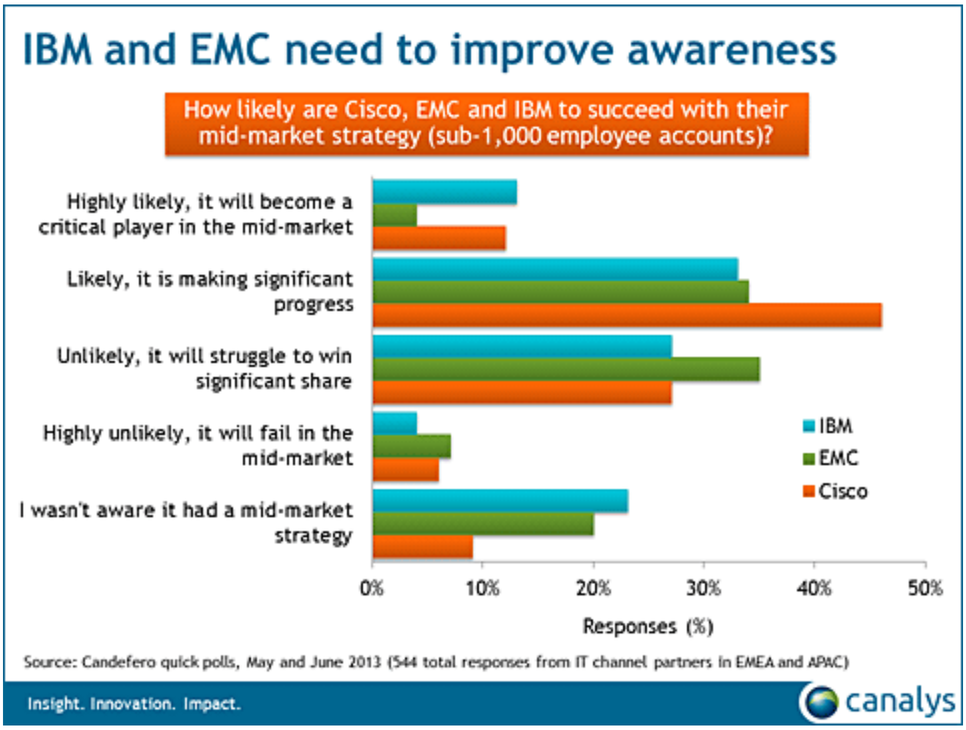

It faces two primary challenges here. Firstly, a high proportion of its MSPs are focusing on infrastructure-as-a-service. With so many price-led players, including global names such as Amazon Web Services and Rackspace, differentiation and profitability are the biggest issues. MSPs building on IBM platforms can struggle to compete on price with international players building on cheaper white-box data center solutions. IBM needs MSPs to move up the value chain into applications, analytics, infrastructure management-as-a-service, etc. The second challenge is that most end customers will maintain mixed IT environments, combining on-premises with off-premises. Many of IBM's MSP partners will lack the skills to support on-premises environments or provide integration services. Without these skills, customers will question their relevance.

IBM is coaching MSPs to move into higher-value solutions, rather than depend on IaaS. It wants MSPs to build relationships with ISVs, to encourage MSPs to develop SaaS offerings. It has launched a 'Solutions Store' – initially in the UK - which will bring MSPs together with ISVs, providing standardized commercial templates to accelerate these partnerships. This includes aiming for small ISVs that otherwise struggle to generate scale or reach. There is no guarantee that IBM's match-

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making attempts will lead to successful relationships. But, in theory, MSPs benefit from new portfolio offerings, while ISVs gain access to a new route to market. IBM will also make the Solution Store available to its resellers. Many cloud providers are trying to establish indirect channels, recognizing they need to use the customer relationships of existing resellers, and their services capabilities. This model should therefore appeal if IBM creates appropriate value propositions for both sides.

Cisco invests in a partner-led model

Cisco has identified the mid-market (100-to-1,000-employee companies) as one of its worldwide growth priorities. The vendor claims this is already its fastest growing customer segment, though its share remains small compared with its slice of the large enterprise market. By 2016 it expects the total available market to be worth $25 billion in products and $30 billion in services, driven principally by mobility, the cloud, the deployment of business apps, security and virtualization. It follows a strict indirect 'partner-led' go-to-market model here: customer relationships are fully owned by the partner, supported by a wide range of pre-sales, marketing and support resources from Cisco. It has also built a 'made for mid-market' portfolio of collaboration, networking, security and data center solutions, including 'smart solutions' (such as BYOD and virtual desktop), and cloud/managed services, covering collaboration-as-a-service, IaaS and cloud networking solution Meraki.

At its partner summit in Boston, Cisco announced it is doubling its global mid-market spend for the channel to $150 million, split between marketing, support and partner incentives. It has committed to generating $1 billion of qualified leads for partners. It wants to help partners enhance their online presence, where it sees many mid-market buyers comparing providers and making purchase decisions. The majority of Cisco's investment will be in its dedicated mid-market channel program, Partner Plus, aimed specifically at partners representing growth and capacity for Cisco in this space, and which already account for 90% of total mid-market business. Since launching in 2012, it has recruited around 2,000 partners to the program, with 1,000 in EMEA, 600 in the US/Canada and the remainder split between APJC and Latin America. Cisco intends to keep this program focused on partners that are prepared to grow their Cisco revenue, and invest.

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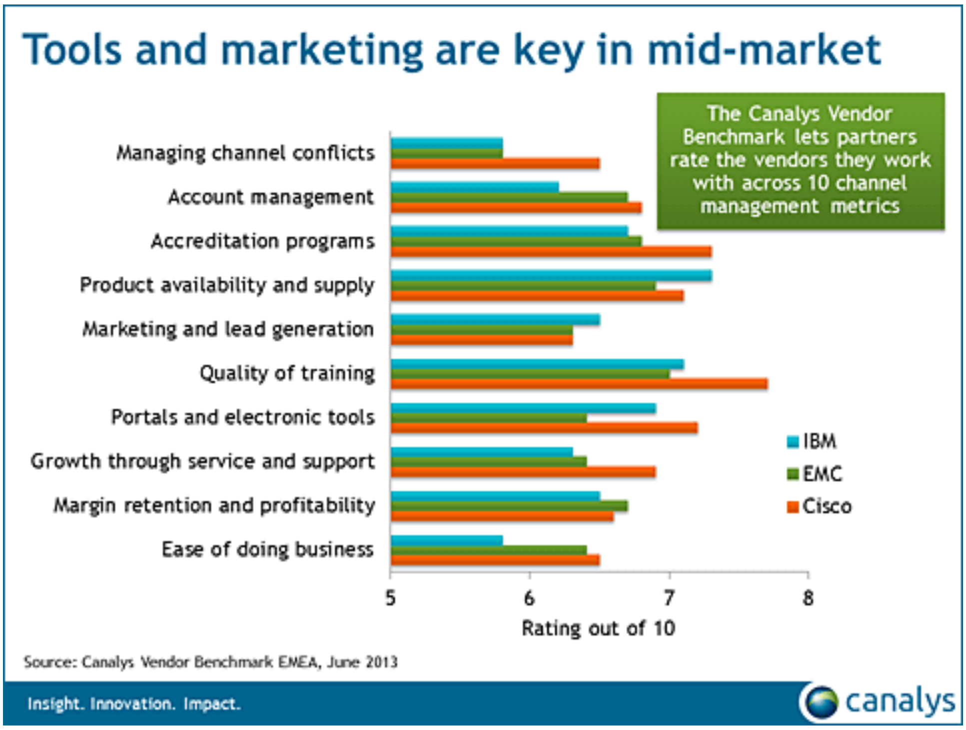

Cisco's partner-led model has so far been a success for the company, maintaining its strong indirect heritage and investing in partner profitability. For Cisco, the model also depends on being as cost-efficient as possible. Cisco has built multiple virtual resources, to minimize the cost of serving these partners, and the cost for partners to use these resources. Cisco's main challenge is driving new partner skills, particularly professional services. It has launched new business consulting certifications, designed to help partners elevate sales discussions to a business 'outcome' level. It also needs to carefully maintain a balance between a relatively small group of Partner Plus partners, and the wider set of its smaller partners serving small and medium-sized businesses. These (classified as Velocity) partners may not generate a significant share of the total, but they act as a local, proximity channel serving millions of customers – a proportion of which will grow into mid-market accounts.

Success factors

This market segment is one of the most challenging for vendors, bridging the gap between large enterprises and small businesses. An indirect model is critical, but this creates its own challenges. The vendor is almost wholly reliant on partners as the representative in front of the customer. Training

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and certifications must be accessible and cost-effective for partners. There is also no single channel type here: mid-market customers are served by a plethora of providers of different sizes and business models. Managing this complex partner environment cost-effectively through programs, while building long-term relationships, is a difficult task.

EMC, IBM and Cisco represent three very different vendor strategies, but also different legacies: Cisco's advantage may be greatest here given its existing channel model and product set. Direct comparisons between these three companies are difficult. But channel partners must assess their decision to work with vendors in the mid-market based on some common criteria: are they committed to supporting profitable business over the long term? Do they have the processes and resources in place to maximize my investment? Are they supporting me in the sales process? Do they create demand in my customers? Does their approach amplify or detract from my own business model? Do I trust them to maintain a focus on a channel-led strategy?